OFFICE OF ATTORNEY GENERAL
BUREAU OF CONSUMER PROTECTION
100 North Carson Street
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CATHERINE CORTEZ MASTO
Attorney General

ERIC WITKOSKI
Consumer Advocate
Chief Deputy Attorney General

October 24, 2013

Donna Skau
Commission Secretary
1150 E. William
Carson City, NV 89701

Re: Docket No. 13-07021

Dear Ms. Skau:

Please accept for filing the *REDACTED* Testimony of Dan Jacobsen on behalf of the Bureau of Consumer Protection in the above-referenced docket.

Should you have any questions regarding this filing, please contact me at (702) 486-3793.

Sincerely,

CATHERINE CORTEZ MASTO
Attorney General

ERIC WITKOSKI
Consumer Advocate

Michael Saunders

MICHAEL SAUNDERS
Senior Deputy Attorney General
Bureau of Consumer Protection
10791 West Twain Avenue, Suite 100
Las Vegas, NV 89135-3022

MS:ml
cc: Parties of Record

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

COMPANY

DOCKET NO. 13-07021

PREPARED DIRECT TESTIMONY OF

DAN JACOBSEN

ON BEHALF OF THE

ATTORNEY GENERAL'S BUREAU OF CONSUMER PROTECTION

1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dan Jacobsen. I am a Technical Staff Manager with the Bureau of Consumer Protection (BCP). My business address is 100 North Carson Street, Carson City, Nevada 89701. Exhibit DJ-1 summarizes my professional background.

2. Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I hold a BA degree from San Jose State University and an MBA from Golden Gate University. For thirty years, I worked in financial, regulatory and government affairs positions for Pacific Telephone, Pacific Bell, Nevada Bell, SBC and AT&T.

3. Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN REGULATORY PROCEEDINGS?

A. Yes. I have testified in various California and Nevada regulatory proceedings.

4. Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. The Nevada Attorney General's Bureau of Consumer Protection.

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5. Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Over the past ten years, electricity base rates have increased dramatically as a result of Company "Transformation" efforts. High base rates are now generating significant surplus earnings that should not be handed to the new owners. Also, Nevada regulations require a showing regarding reductions in costs.[1] The Company has not demonstrated that customers will benefit from acquisition cost reductions. Finally, under the Company's proposal, the acquisition would result in rates being higher than necessary in order to compensate the new owners for the acquisition premium. This would be harmful to customers. Accordingly, based on the absence of assured benefits and the harm that customers would experience, the acquisition should be rejected as not being in the public interest. However, with appropriate conditions the customers' exposure to harm can be limited and appropriate benefits can be provided to customers. Specifically, the following conditions would need to be adopted for the proposed MidAmerican (MA) acquisition of NV Energy (Company or NVE) to be found in the public interest:

1. The proposed recovery of the acquisition premium through a "cost sharing rate plan" needs to be rejected.
2. Nevada Power Company (NPC) rates need to be reduced by $30M at approval of the acquisition in order to ensure that ratepayers are paying just and reasonable rates and to protect against the harm of potentially higher base rates.
3. NPC and Sierra Pacific Power Company (SPPC) should be required to impute $15M of merger related cost savings during their upcoming general rate cases.
4. The Company should commit to replace the lost sales compensation mechanism with a more reasonable incentive structure during the next legislative session.

[1] NAC 704.79985(2) is the regulation related to applications filed pursuant to NRS 704.329. Based on this regulation, an application must include information relating to the anticipated effect of the proposed transaction on costs and rates, including a detailed explanation of the manner in which the proposed transaction will result in gains in efficiency and reductions in costs, and the magnitude of those gains and reductions.

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5. Construction or acquisition of 600MW's of new self-owned generation capacity mandated in Senate Bill (SB) 123 should be delayed so that it is not brought into service or rates until 2020. Lower cost power purchase agreements (PPAs) and wholesale power purchases should be used in the interim in order to meet any open positions. During the interim six years, customers could provide cost recovery for coal generation retirements and remediation costs. Customers should not be saddled with the additional cost of self-owned capacity additions at the same time that they will be required to pay for coal retirement and remediation.
6. Affiliate Transaction rules should be strengthened as recommended by BCP witness Jim Dittmer.
7. Ring Fence protections should be verified and strengthened as recommended by BCP witness Dan Lawton.
8. Safeguards and standards should be adopted regarding service quality, natural gas hedges with affiliates, efforts to sell for resale, and advocacy regarding Kern River fuel purchase prices as recommended by BCP witness David Chairez.
9. The trial smart meter opt-out service offering should be made permanent and pricing should be frozen for six years.

BACKGROUND

6. Q. PLEASE PROVIDE BACKGROUND INFORMATION ON CHANGES NV ENERGY HAS MADE TO ITS UTILITY SERVICE.

A. In order to understand the potential harms that the proposed acquisition poses and the conditions that will be most important to residential and small business customers, it's helpful to consider the changes that NV Energy has made to the structure of its utility service. These changes were explained to Investors in a recent NV Energy presentation. A few charts from this NV Energy presentation are provided below to illustrate the changes.

To investors, NV Energy has described these changes as "The Transformation".

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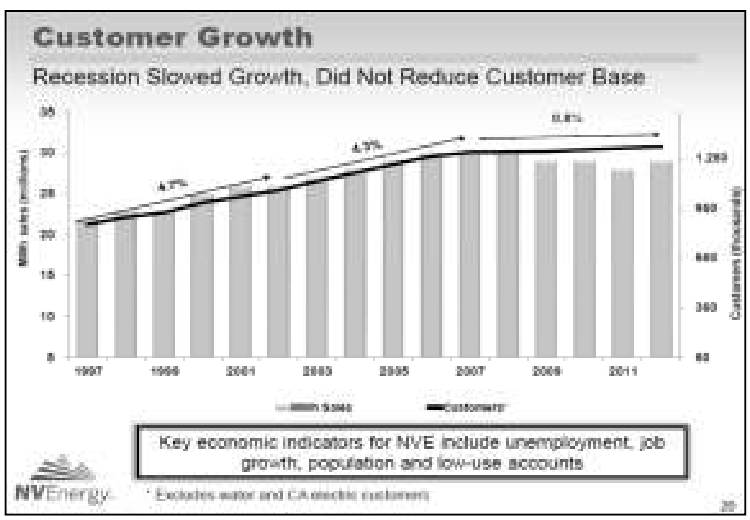
The NVE Transformation

	2003	2012	% Increase/ (Decrease)
Self-Owned Generation (MW)	2,797	6,078	117%
O&M (Cents/kWh)	$2.76	$2.43	-12%
Effective Rate (Cents/kWh)[1]	$9.77	$9.84	1%
Fuel Rate (Cents/kWh)[2]	$7.23	$3.90	-46%
Non-Fuel Rate (Cents/kWh)[3]	$2.54	$5.94	134%
Gross Margin ($ millions)	$846	$1,745	106%
Effective Cost of Debt	9.5%	6.0%	-37%
Price per Share (Year-ended)	$7.34	$18.14	147%
Dividend per Share	---	$0.64	---
Credit Ratings (S&P/Moody's)			
NVE-S	BB,B+ / Ba2	BBB+ / Baa1	
NVE-N	BB,B+ / Ba2	BBB+ / Baa1	

1 Defined as Total Retail Electric Revenue/Total Retail Electric Sales
2 Defined as Total Fuel & Purchased Power Costs + Deferred Energy/Total Retail Electric Sales
3 Defined as Total Retail Electric Revenue - (Fuel & Purchased Power Costs + Deferred Energy)/Total Retail Electric Sales

NVEnergy [2]

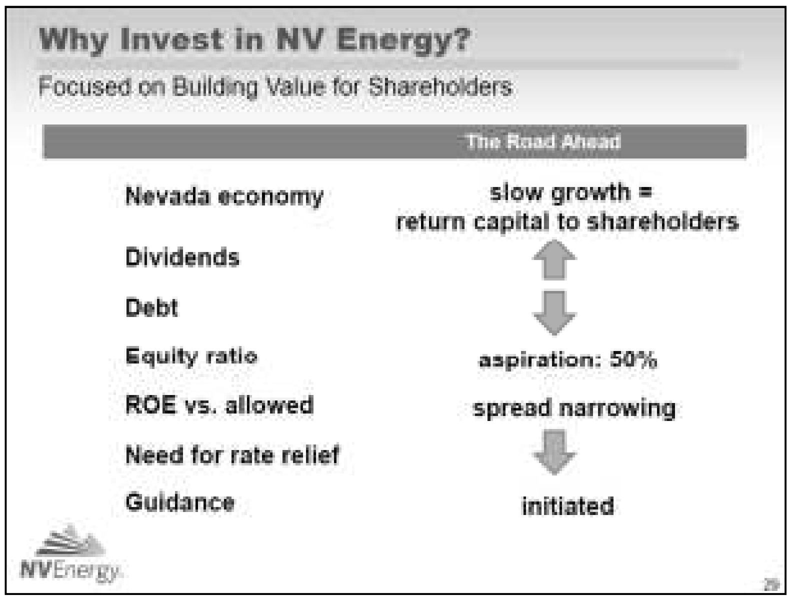
Over a ten year period the Transformation included more than a doubling of "Self-Owned Generation" capacity. This has significantly increased rate-bases. Larger rate-bases have more than doubled "Non-Fuel Rates". The significant increase in rates has more than doubled gross margin, while the cost of debt has declined significantly. The net impact is a much more profitable utility that was well positioned to be acquired. The transformation was at least partly enabled by the timing of the 2007 financial collapse. Electricity sales declined after the 2007 financial crisis. The Company explained this to investors in the chart below:



[3]

[2] NV Energy Presentation to Investors, "Investor Meeting New York March 5 – 7, 2013. http://www.nvenergy.com/company/investors/

A combination of relatively flat sales growth and the rate-basing of new generation facilities has put NVE in a very strong financial position. Almost as soon as the new generation investment was added to rates, NVE's rate-bases started declining. Accordingly, high current base-rates in conjunction with declining rate-bases are causing NVE to be quite profitable. Such conditions were summarized and presented in the chart below wherein the Company told investors that they would start returning, rather than reinvesting, capital to investors:



The guidance regarding the returning of capital to shareholders reinforces the notion that the Company expects to have a declining rate-base—which in turn results in increased achieved rates of return and a declining need for rate relief.

The combination of higher rates, slow demand growth, ability to control costs and no major projects in the future allowed the Company to tell investors that earnings (ROE) would be improving even as sales declined. Here is a Company chart that makes this point:

[3] Id.

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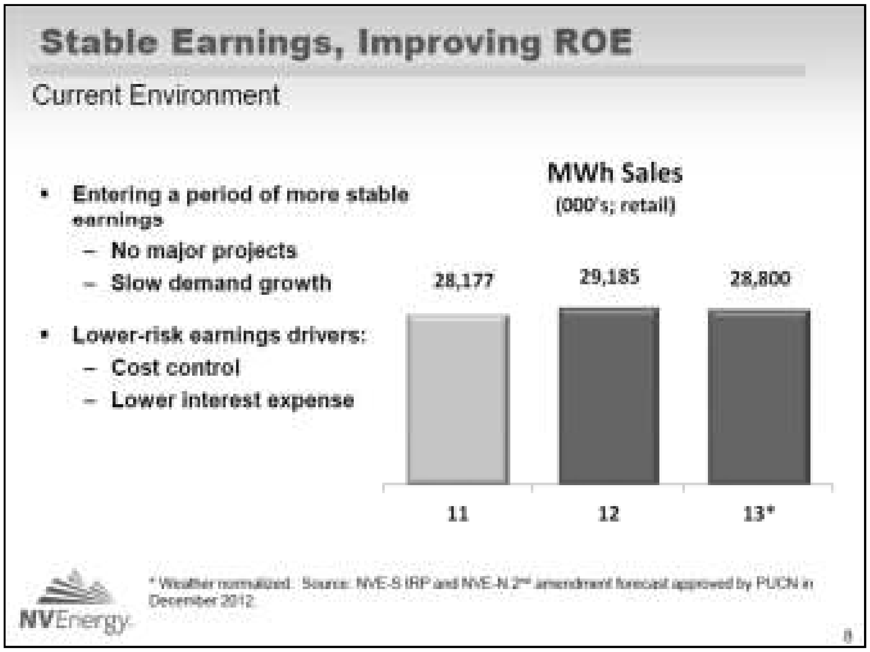
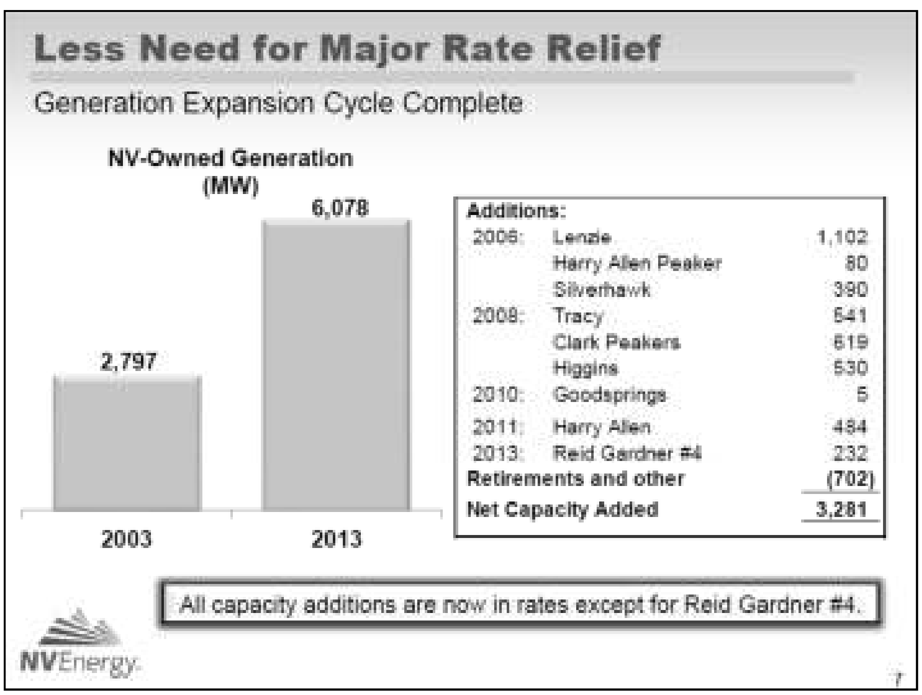


[4]

The Company reinforced this point by explaining to investors that since all of this additional investment boosted customer rates, when demand was declining, NV Energy has "Less Need for Major Rate Relief".



[5]

[4] Id.
[5] Id.

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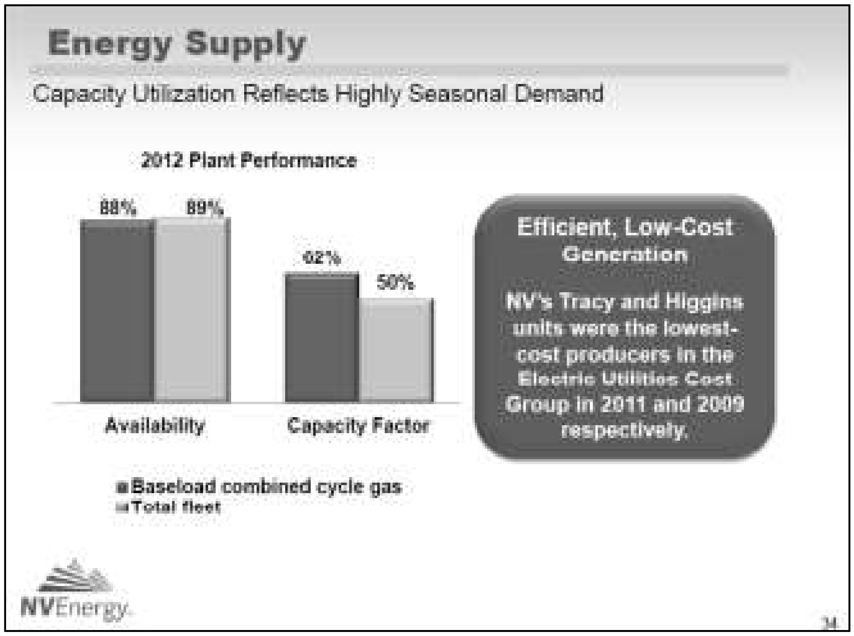
One of the effects of the dramatic increase in owned capacity is relatively low utilization of generation capacity. Here is a Company chart showing the average utilization.



[6]

The Company explanation for the relatively low utilization is that Demand is "Highly Seasonal". This means that self-owned capacity additions require customers to pay for capacity that sits idle about half the year. Customers shouldering the burden of extra generation capacity have helped increase earnings and eliminate the need for future rate relief.

Not only does the Company not need rate relief from future rate cases, they expect that in future rate cases rates will be [redacted][7]

This same message about "Less Need for Major Rate Relief" was emphasized in a summary chart. The summary chart adds that the Company is "Well Positioned

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[6] Id.

[7] Company response to BCP DR 4-2 – confidential attachment #2. "Rate Relief" line

Strategically”. This tends to reinforce the notion that “The Transition” positioned NV Energy to be acquired.

7. Q. IS THERE EVIDENCE IN THE CASE CONFIRMING THAT HIGHER BASE RATES POSITIONED THE COMPANY TO BE ACQUIRED?

A. Yes. Many confidential documents provided in support of the application reinforce the point that NV Energy’s Transformation, which boosted base rates in order to increase profits, positioned the Company for acquisition. For example, NV Energy engaged Lazard to develop a strategic and valuation update. Lazard confirmed that [redacted][8]

[8] Application Exhibit 13 page 25 of 406. Page 49 of the Lazard presentation: NV Energy Strategic and Valuation Update.

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Lazard also commented on the value of M&A initiatives to NV Energy. Specifically, Lazard confirmed that NV Energy had the [redacted][9]

8. Q. HOW IS THIS INFORMATION RELEVANT TO THE COMMISSION DECISION REGARDING THE ACQUISITION?

A. The relevance of this information is that this strategic positioning was funded by customers paying very high base rates. The expectation is that high base rates will continue to generate very high free cash flow – certainly higher cash flow than is necessary to meet essentially flat demand growth. While NPC and SPPC rates may have been reasonable when they were adopted in the 2010 and 2011 general rate cases, these rates are no longer reasonable. Evidence regarding [redacted] confirm this.

9. Q. HOW HAS 'THE TRANSITION' IMPACTED CUSTOMERS?

A. "The Transition" has been very burdensome on customers. Here is a BCP chart showing the significant increase in NPC base rates over the past decade.

[9] Application Exhibit 13 page 205 of 406. Page 8 of the Lazard presentation: A Review of NV Energy Strategic Initiatives.

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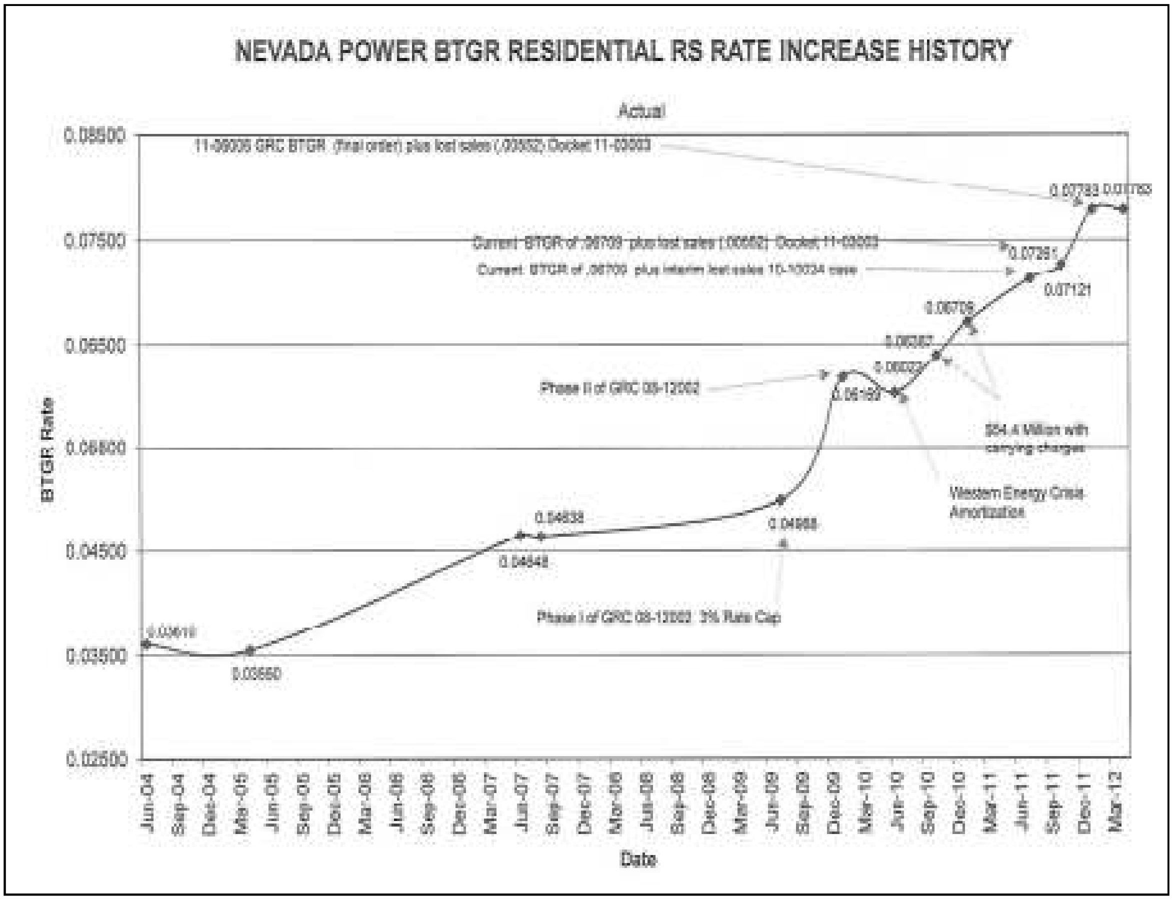
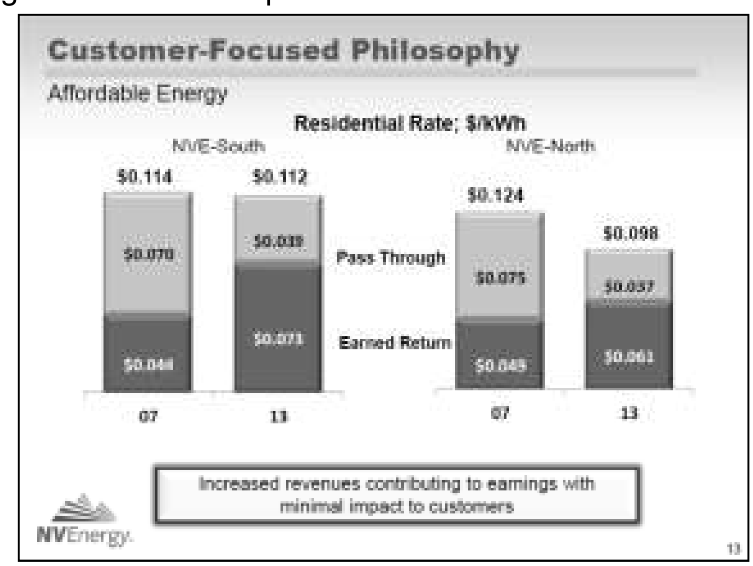


Below is a Company chart showing that base rates increased significantly between 2007 and 2013 while BTER rates declined. The Company asserted that revenue increases raised earnings with "minimal impact to customers"



[10]

[10] Id.

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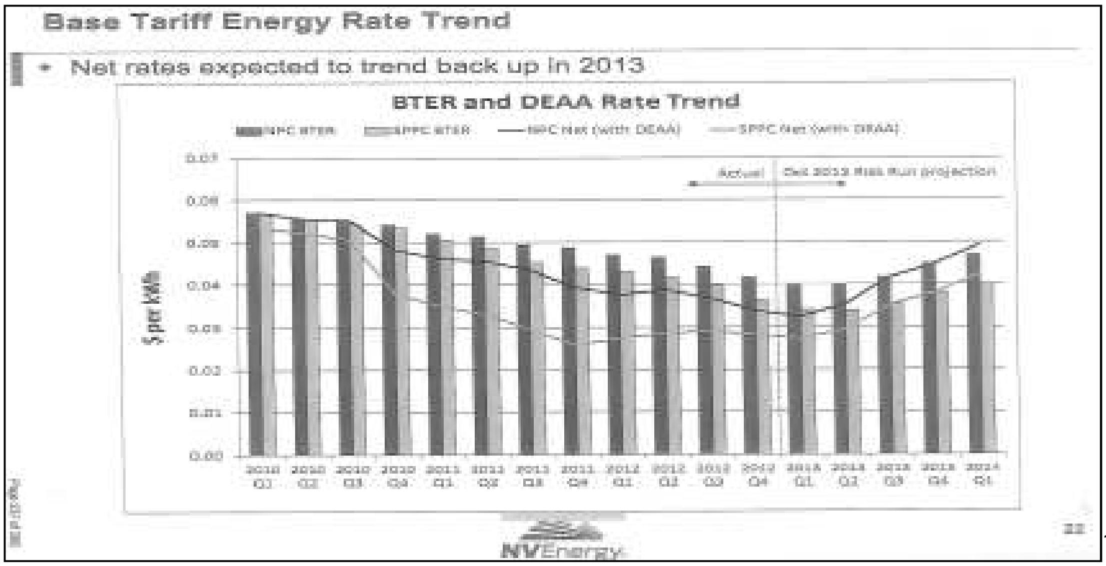
The Company frequently attempts to downplay the size of the base rate increases by claiming that overall rates (BTGR and BTER combined) are relatively flat. While declines in natural gas prices have masked base rate increases to a certain extent, at this point in time Nevada BTER rates have started to increase. Here is a Company chart on this point:



[11]

The significant point here is that as BTER rates move upward the Company will no longer be able to mask base rate increases by focusing on overall rates. Customers will feel the full impact of high base rates and increasing BTER rates.

Nevada Residential customers already pay higher electricity rates than any other Mountain West state. Below is an EIA chart comparing residential rates:

[11] Dockets 13-03003, 13-03004, 13-03005 Company Application – Volume 10 of 10, page 237 of 285.

	2013 YTD cents/kWh	2012 FULL YR cents/kWh
Mountain	10.97	10.63
Arizona	11.39	11.05
Colorado	11.55	11.03
Idaho	8.80	8.12
Montana	10.16	9.84
Nevada	11.70	12.01
New Mexico	11.44	11.04
Utah	10.07	9.63
Wyoming	9.88	9.54

[12]

The fact that customers are paying more for electricity than necessary is evidenced by the significant overearnings that SPPC and NPPC achieved in 2012 and so far in 2013. During 2012, NPC earned $28M more income than authorized. SPPC earned $6M more income than authorized.[13] Through July 2013 NPC is earning 120 basis points more than their authorized ROR. SPPC is earnings 99 basis points over their authorized rate of return. This equates to about $75M in surplus 2013 earnings after tax.[14] The overearnings are the result of the "Transformation" that has and will continue to cause customers to pay more for electricity service than necessary.

[12] EIA information http://www.eia.gov/electricity/
Table 5.6.B. Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, Year-to-Date through June 2013 and 2012 (Cents per Kilowatthour)

[13] These overearnings amounts were verified in Dockets 13-03003 and 13-03004. The Commission recently ordered both Companies to return lost sales compensation for 2012 to customers. This will have the effect of reducing 2012 overearnings but even with this adjustment NPC still over earned by $18M.

[14] See Company response to BCP DR 10-2.

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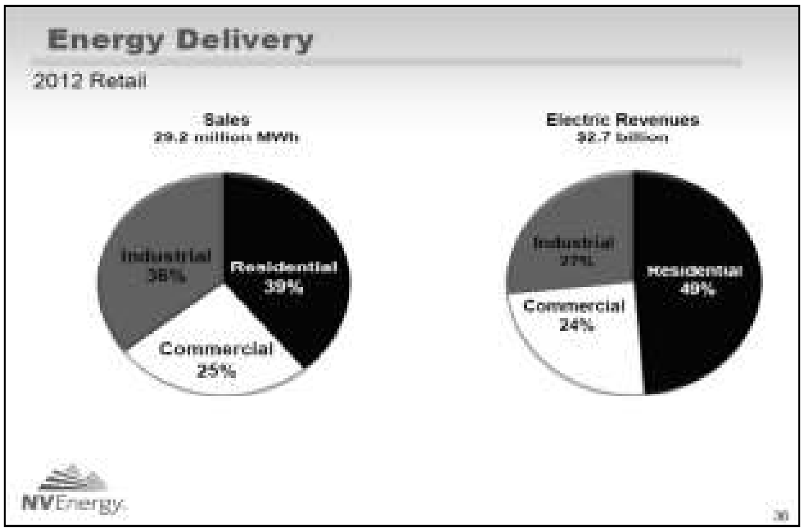
10 Q. PLEASE COMMENT ON THE IMPACT TO RESIDENTIAL CUSTOMERS

A. High base rates have impacted all classes of customers; however, the impact on residential customers has been particularly significant. The combination of base rate increases and peak-hour allocation of costs is resulting in a heavy burden for residential customers. Almost half of cost recovery comes from residential customers, even though they only consume about one-third of the electricity. A Company chart confirms this:



[15]

High electricity rates are occurring at a time when many residential customers in Nevada are struggling. The Las Vegas unemployment rate was 9.7% for July 2013.[16] In contrast, the United States unemployment rate was 7.4%. In July of this year, 29,016 Nevadans were receiving Temporary Assistance for needy families. This is a 4.6% increase since July of last year. In June, 363,155 Nevadans participated in the food stamps program. This is a 2 % increase from last year. For comparison purposes, in 2007 less than 150,000 Nevadans were participating in the food stamps program. Higher than necessary electricity prices are an unnecessary burden on these struggling residential customers. The significance of this information is that customers have paid higher than necessary

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[15] Id.

[16] July 2103 information from the Nevada Department of Employment Training and Rehabilitation (DETR) economy in Brief – Economic Summary.

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base rates in order to help transform NV Energy into a Company that could be acquired. These customers are struggling and should be given some relief if the Commission is going to approve the acquisition.

<u>II. Potential Harm and Needed Protections</u>

11 Q. PLEASE DESCRIBE THE POTENTIAL HARMS THAT THE MA ACQUISITION COULD CAUSE.

A. One of the most significant potential harms is further base rate increases related to additional infrastructure investments. Many confidential Company documents from the application indicate that NV Energy is an attractive acquisition candidate because of the opportunity the new owners will have to [redacted]

- [redacted]
- [redacted][18]
- [redacted][19]
- [redacted][20]

It seems clear that part of the attractiveness of acquiring NV Energy is the opportunity to further expand rate bases. Current surplus earnings and free cash flow that "The

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[17] Application Exhibit 13, Page 164 of 406

[18] Application Exhibit 13 page 162 of 406

[19] Application Exhibit 13 Page 184 of 406

[20] Application Exhibit 13, Page 179 of 406

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Transition" is generating position the Company to look for opportunities to build more infrastructure at a time when demand is essentially flat.

Another potential harm is the likelihood that base rates will be higher than necessary as a result of the Company proposal to share savings between investors and customers. The acquisition could result in significant cost reductions at NPC and SPPC inasmuch as Berkshire Hathaway has a history of taking costs out of acquired businesses.[21] Under the Company proposal, only 50% of cost reductions attributable to the acquisition would be reflected in rates. Instead of rates being set based on test year historical costs, rates would be set higher than historical costs. The Companies would seek recovery from ratepayers of 50% of costs that did not occur, i.e. costs that were eliminated as a result of the acquisition. Further, as BCP's witness Mr. Dittmer describes, it is likely to be difficult and controversial to identify and quantify cost reductions only achievable as a result of the merger versus other cost reductions occurring as a result of efficiency gains and/or technology improvements. Accordingly, adoption of the Company's cost sharing proposal exposes ratepayers to sharing with stockholders, over a 40 year period, cost reductions that would have been achieved absent the acquisition.

While there are other potential harms of this acquisition, BCP is most concerned that base rates will be higher than necessary both as a result of additions to self-owned generation capacity as well as setting rates higher than historical test year costs.

12 Q. WHAT CONDITIONS COULD ADDRESS THESE HARMS

A. For the acquisition to be in the public interest, the Commission needs to adopt conditions that will protect customers from these harms and assure that customers benefit from cost reductions that new owners will implement. Here are the conditions that would adequately protect customers from the harms described above:

[21] Berkshire Hathaway acquired Heinz. Significant cost reductions occurred that were not related to synergy, but rather just aggressive budget cutting. See attachment DJ-2 "There Have Been Some Pretty Harsh Changes At Heinz Since Warren Buffett Bought The Company"

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1. Reject the proposed acquisition premium treatment

NV Energy customers should not be required to pay rates that are developed by considering costs above the utility's actual cost of labor, property, plant and equipment. If a franchised monopoly utility is able to achieve savings through cost reductions and synergies with new owners then these reductions, to the extent known and quantifiable, should be passed through to ratepayers in their entirety through the general rate case process.

Mr. Lawton's testimony demonstrates that even without recovery of the acquisition premium via the proposed sharing, Berkshire Hathaway's shareholders will receive a very adequate return on their investment – including the premium above NVE's common stock book value or even NVE's common stock market price immediately preceding the announced acquisition. Mr. Lawton explains that the adequate return would be achieved based on the spread between MA's actual $4.5B borrowing cost (at less than [redacted] interest costs) versus NV Energy's authorized return on equity that is envisioned to continue to be used when establishing utility rates (currently about 10%). Further, Mr. Dittmer's testimony describes how NVE shareholders will participate in synergy savings, even absent the proposed "sharing plan" as a result of regulatory lag. In summary on this point, ratepayers should not be required to fund extraordinary financial perks to stockholders, such as is being proposed through retention of 50% of cost reductions presumed to be attributable to the acquisition.

2. Immediately reduce NPC rates to eliminate surplus earnings.

Ratepayers should not be required to continue to pay rates to NPC that generate large surplus earnings and excessive free cash flow. By reducing base rates immediately the Commission will reduce the significant surplus earnings that are being generated. This would relieve some of the current burden on ratepayers. Mr. Dittmer's testimony provides support for a conclusion that NPC is significantly over earning at this time, and that an

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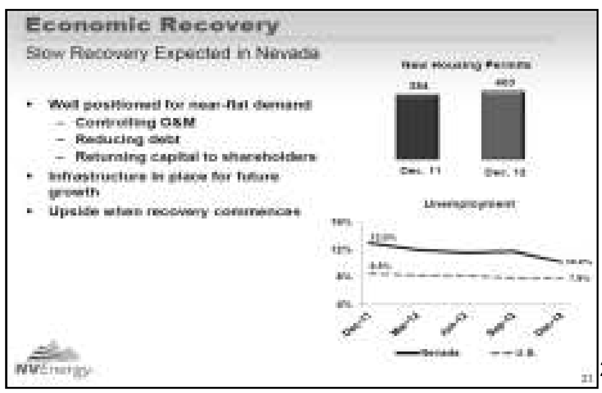
annual decrease in NPC retail rates of approximately $90M may be justified at the time of NPC's 2014 GRC filing. At this point in time BCP is conservatively recommending a $30M rate reduction to be implemented concurrent with, or shortly following, approval of the acquisition. An immediate $30M rate reduction would only eliminate a portion of the surplus earnings that are currently being generated. Even with an immediate reduction NPC would still be experiencing surplus earnings. Mr. Lawton's testimony explains that this rate reduction would not negatively impact financial metrics for NV Energy.

An immediate rate reduction would also help protect against further unnecessary base rate increases related to infrastructure expansion during periods of flat demand. This is a reasonable safeguard in view of the absence of any major projects that need to be added to the rate-base to meet growth. Here is a Company chart confirming that the Company is "well positioned for near-flat demand" because "infrastructure is in place for future growth", i.e. no need to fund additional projects.



[22]

An immediate rate reduction is also reasonable given projections of flat growth in Southern Nevada. Here are some charts the Company recently presented that illustrate the likelihood of no significant growth over the planning horizon.

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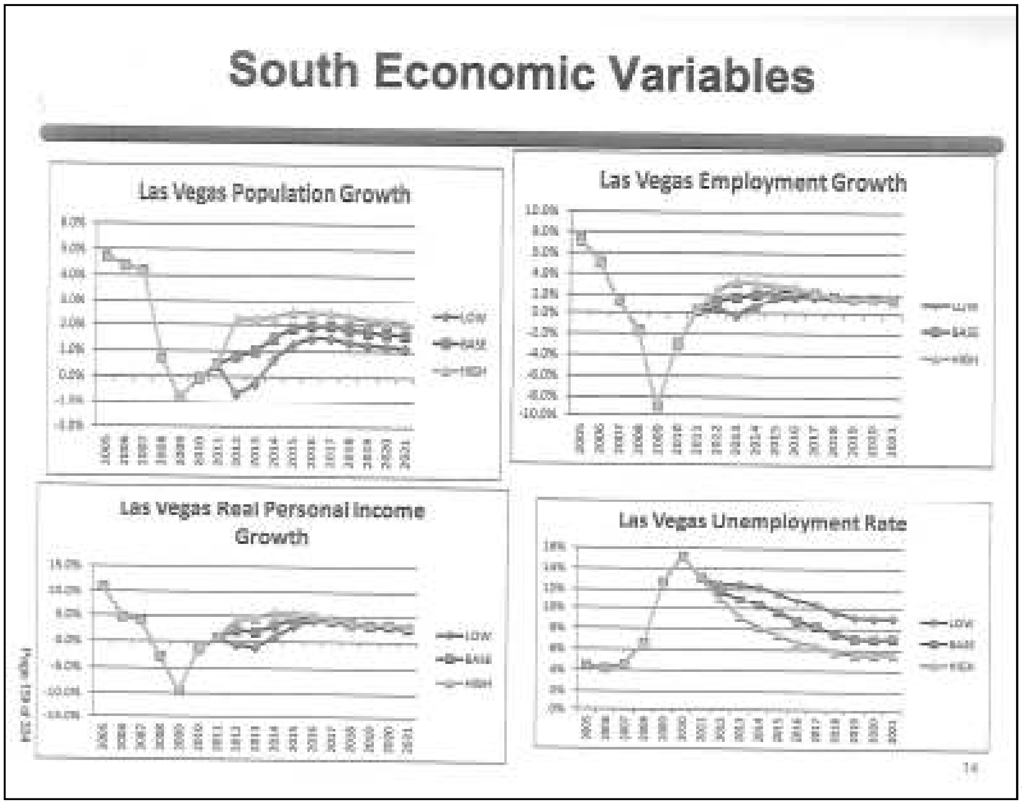
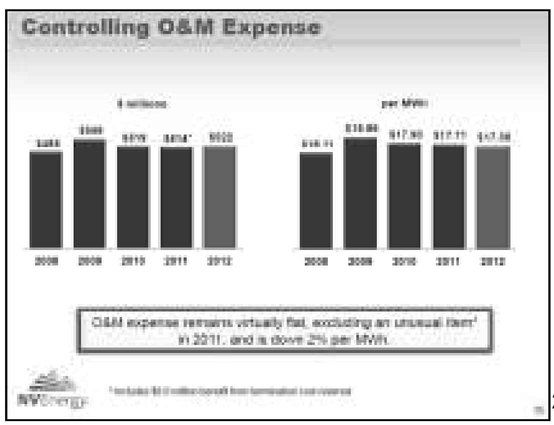
[22] Id.



[23]

An immediate rate reduction is also reasonable in view of the Company's experience with O&M costs. Here is a Company chart confirming that O&M costs are "virtually flat" over time.



[24]

The Commission is not obligated to allow the acquiring Company to profit from existing NPC and SPPC base rates that are generating significant surplus earnings and excessive

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[23] Dockets 13-03003, 13-03004, 1303005 Company Application- Volume 8 of 10 Technical Appendix, page 150 of 334.

[24] Id.

free cash flow. The Commission's obligation is to establish reasonable rates. Rates are not reasonable when they generate large surplus earnings and when they are expected to generate [redacted] in free cash flow above and beyond dividend and construction funding requirements. This acquisition provides the Commission with an opportunity to immediately and partially correct these unreasonable rates before accepting the risk and uncertainty of new utility ownership.

As demonstrated in Company charts, surplus earnings are not needed to fund additional projects to meet growth. Current generation capacity is only 50% utilized. Surplus earnings are also not needed to cover increasing O&M costs. O&M costs are flat and the acquiring Company will likely find ways to immediately reduce Company expenses.

If the acquisition is approved then ratepayers will be exposed to new Company ownership that will be challenged to cut costs and boost rates. This type of pressure routinely accompanies an acquisition; particularly when a significant premium is paid by the acquiring Company. This poses a significant risk to customers who are already struggling to pay high rates. Instead of waiting for the 2014 NPC general rate case to eliminate surplus earnings on January 1, 2015, relief can and should be provided early in 2014 as a condition of approval of the acquisition.

3. Guarantee that customer's benefits from cost savings related to the acquisition.

The Joint-Applicants have not committed to any material cost reductions. However, Company testimony provides an estimate that $30M[25] in acquisition-related cost reductions may be achievable. As a condition on approval of the acquisition, the Commission should require the Companies to identify all acquisition-related savings that have been achieved and savings that will be achieved in very short order when the next GRCs are filed. To the extent that $15M in NVE-wide savings is not identified, then a full $15M of savings should be imputed into the cases. For example, if the Companies retail

25 Direct Testimony of Mr. Kevin Bethel, page 11, line 7.

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cost of service development for the GRCs only identifies $10M of NVE-wide acquisition–related savings then an additional $5M of acquisition-related savings should be imputed as a credit or reduction to NVE's total retail operations cost of service. A $15M imputation of savings will assure that customers benefit and that the new owners are less likely to "game" the rate case process by implementing cost reductions just after the close of test year and certification periods.

While NPC is expected to file a general rate case in 2014, there is some uncertainty as to whether SPPC will also file a general rate case in 2014. If SPPC does not file in 2014, then a tariff rate rider should provide the SPPC portion of the $15M of imputed NVE-wide savings to SPPC customers effective January 1, 2015.

If the acquisition is approved, then NPC and SPPC will definitely be in a declining cost mode. If cost savings are not imputed during upcoming rate cases, then customers will pay rates for three years that will compensate the Companies for expenses that are no longer being incurred. When cost reduction changes are coming, the Commission should not ignore them when setting rates.

As proposed, the Acquisition may not actually provide any reductions to capital costs. The Company has provided contradictory statements on this topic that raise doubt about whether customers will benefit or actually have to pay higher rates. On the one hand, the direct testimony of Mr. Calvin D. Haack[26] describes a positive impact that the acquisition is anticipated to have on Nevada Utility credit ratings. Mr. Haack testified that higher credit ratings would lower the cost of future debt issuances.[27] However, during the October 7, 2013 cost of capital portion of SPPC's general rate case, the Company expert, Mr. Kurt G. Strunk, testified that a higher ROE (10.4% instead of 10.1%)[28] is needed based on " … the riskier credit profile and the challenge facing the regional economy." Mr. Strunk also testified that NV Energy needs a higher authorized ROE because SPPC is "… more risky

[26] Direct Testimony of Mr. Calvin D. Haack starting at Q&A 22

[27] Direct Testimony of Mr. Calvin D. Haack at Q&A 23, page 11.

[28] Docket 13-06002, October 7, 2013 Hearing Transcript page 186

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than the rest of my proxy group."[29] Mr. Strunk did not appear to consider that the acquisition would improve the financial condition of SPPC and reduce the risk of SPPC even though if the acquisition is approved NVE will no longer issue stock, but instead rely on parent stock. During these same hearings, Mr. Bethel also claimed that the acquisition would have little impact on the need for a higher authorized ROE. In response to a question about whether the acquisition would directly impact the Company's requested ROE, Mr. Bethel stated:

> "Little will change immediately after the close of the transaction."[30]

During the SPPC cost of capital hearings, the following exchange occurred:

> "Q Well, is it fair to say that the outlook, as far as NVE is concerned, can only be positive as a result of this transaction; isn't that correct?
>
> A I think that's -- I think Mr. Haack in his testimony believes that there is a positive outcome of this. I think if you were to ask again Mr. Mughal or myself or prior [NVE] CFOs we would say we would get there anyway if we continued the positive and favorable treatment by the Commission. All this did was accelerate that.[31]

Mr. Bethel is in effect asking the Commission to increase ROE, i.e. "positive and favorable treatment". It seems clear that the Company is pressing for a higher ROE which will translate into higher than necessary rates for customers, instead of relying on their claim that capital costs will come down as a result of the acquisition. Based on these Company statements, there is uncertainty about whether customers will benefit from MA's lower cost access to capital.

The joint-applicants also have not guaranteed that significant capital or noncapital cost reductions will occur. Nevada regulation NAC 704.79985 includes the following requirement:

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[29] Id. Transcript page 96, lines 1-2.

[30] Docket 13-06002, Direct Testimony of Mr. Bethel Q&A 7, page 3.

[31] Docket 13-06002, October 7, 2013 transcript page 245 line 25 – page 246 line 9.

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> "A detailed explanation of the manner in which the proposed transaction will result in gains in efficiency and reductions in costs, and the magnitude of those gains and reductions."

Testimony from Mr. Bethel mentions the "opportunities for reducing administrative and general costs."[32] He also mentions \$3.5 million in annualized cost reductions.[33] These cost reductions exceed the \$2.9 million in new annual corporate charges. Consequently, the Company appears to be committing to a net reduction in noncapital costs of about \$600,000. Other possible cost reductions are mentioned by Mr. Bethel relating to insurance, service maintenance agreements, information technology, general procurement, and financial and accounting services. However, he states that "… the Joint Applicants cannot commit to a specific level of transaction-related cost reductions to be realized before and after May 31, 2014."[34] Later, Mr. Bethel provides a \$30M estimate of annual savings, but this is not a commitment.[35]

A \$600,000 net cost reduction commitment for two utilities that have \$7 billion in rate-base is not material. The Companies have not committed to any material cost reductions that would benefit customers. MA already has employees that perform many of the management functions that are currently performed at NV Energy. Cost savings will certainly occur as functions are consolidated. Base rates, which are reset in the upcoming GRCs, should not ignore this. Imputing \$15M of savings into future rate setting proceedings is a reasonable and appropriate safeguard.

4 Delay construction of 600 megawatts of generation capacity until 2020.

The proposed acquisition adds more uncertainty to the Commission's task of managing compliance with SB 123. New utility ownership will be enticed, if not put under significant

[32] Direct Testimony of Mr. Kevin Bethel, Q&A 13, page 6, lines 9 – 11.

[33] Id, page 6, lines 21 and page 7, line 15.

[34] Id, page 10, lines 26 – 27.

[35] Direct Testimony of Mr. Kevin Bethel, page 11, line 7.

pressure to increase earnings by accelerating rate-base additions. The Commission can and should adopt a condition that would protect customers from unnecessary and/or premature rate burdens related to SB 123.

The Commission and Commission staff are well aware that the mandates in SB 123 will add significant upward pressure on NVE's already high base rates, or at a minimum, preclude or minimize otherwise justified rate reductions. The Commission retains considerable latitude to determine when the 550MW's of new generation capacity and 50MWs of Company-owned renewables will be constructed.[36] In order to protect customers from higher than necessary rates, the 550MW's of new generation capacity and 50MW's of new renewable capacity mandated by SB 123 should not be placed into service or considered in rate development until 2020.

SB 123 does mandate the retirement of some coal capacity as early as 2014. To comply with the law, NV Energy will likely incur costs in 2014 and it seems likely that customers may begin paying for the cost of coal remediation and retirement after the 2014 NPC general rate case. It should also be remembered that in the near future customers will also be required to begin paying for the higher energy costs associated with 300 MW's of new renewable energy. The additional costs associated with 550MWs of conventional generation and 50MW's of renewable energy are likely to exceed $100M in annual revenue requirement.[37] It is reasonable to require NV Energy to delay, and it is permissible under SB 123 to delay, the construction or acquisition of the 550 MWs of conventional generation and 50 MWs of renewable generation until 2020. This would allow for coal remediation and retirement costs to be recovered without also having to fund new self-owned plants at the same time.

As stated above, it is reasonable to assume that the new owners of NV Energy will be pressured to increase profits – particularly in view of the premium MA is paying. Such profit pressure can, in turn, be expected to influence NV Energy management to pursue

[36] SB 123 requires the construction begin on the 50MWs of generation by 2017 and that it be completed by 2021.

[37] When the Harry Allen plant was brought into rates, NPC's revenue requirement increased by $99M.

accelerated construction of conventional generation over continued contracting for purchased power. Confidential Company documents address the impact that SB 123 rate-base additions are expected to have on Company earnings:

[redacted][38]

[redacted][39]

NV Energy customers need to be protected from further unnecessary base rate increases. They should not be required to fund SB 123 rate-base additions sooner than necessary in order to improve Company financials. It should be feasible to hold off on bringing 600 MWs of new self-owned generation into service and into rates until 2020. The coal plant utilization has been very low. Here are the utilization percentages for 2012: RG1 = 13.73%, RG2 = 6.26%, RG3= 10.74%, RG4= 49.86%.[40] Moreover, the Company has several PPA’s which provide energy during summer peak periods. Here is a Company chart showing the role that PPA’s play in meeting generation needs in Southern Nevada:

[38] Exhibit 13 page 325

[39] Exhibit 13, page 382

[40] Source: Susan Hill Direct Testimony Docket 13-03003, page 5, Table Hill-Direct-1

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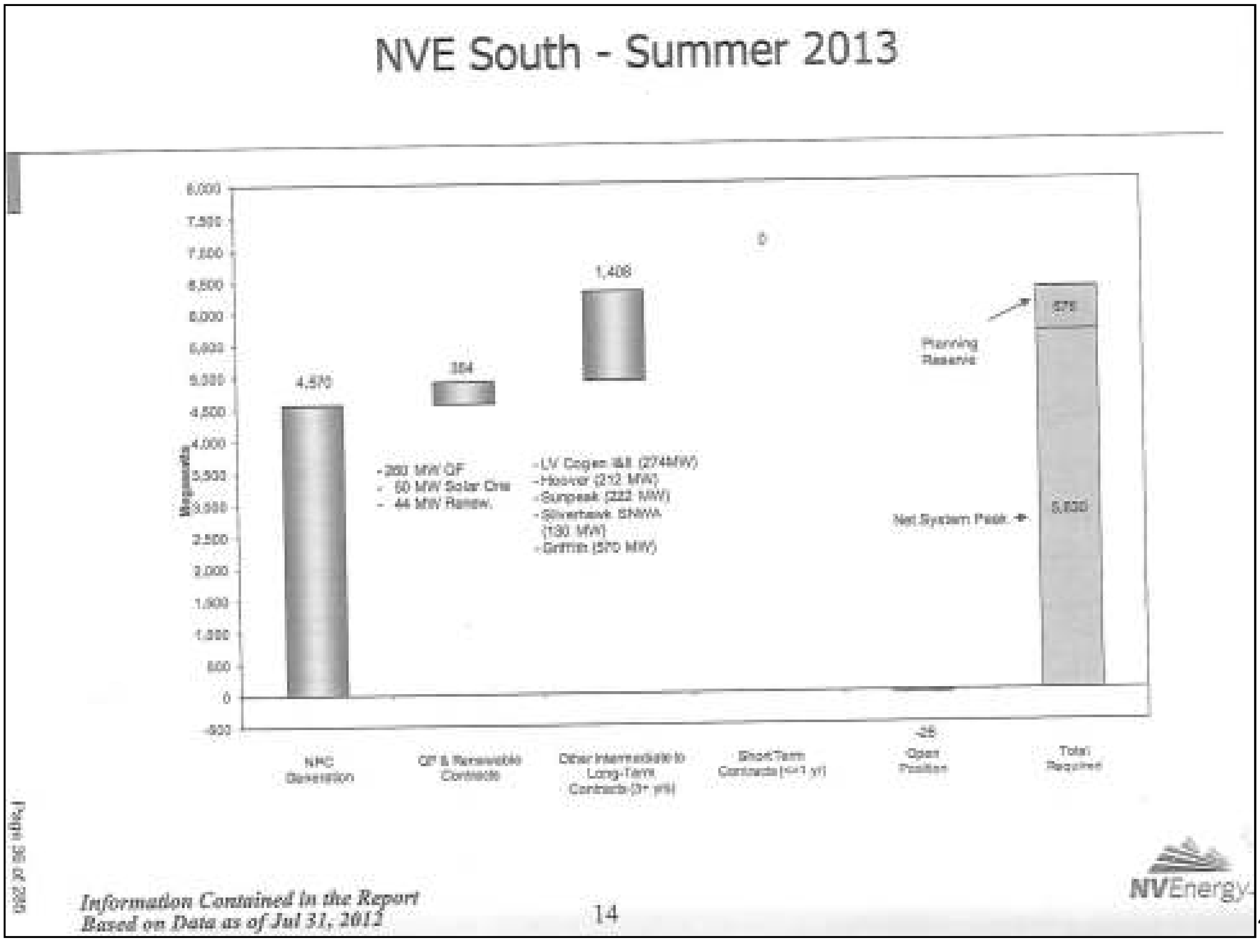

[41]

The PPAs can and should continue to be utilized to meet need. The Company has also recently confirmed that there is more than adequate wholesale power capacity available in the southwest market.[42] This approach would ease the burden on ratepayers as coal remediation and retirement costs are recovered through 2020. By continuing to use purchased power, NPC can delay the base rate increases that will be caused by a new 600MW capacity addition.

On numerous occasions, the Company has indicated that they expect to bring a new 550MW owned capacity addition into service in 2018. The BCP's proposal would delay the addition for two years in order to ease the rate increase burden on customers.

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[41] Dockets 13-03003, 13-03004, 13-03005 Company Application Volume 10 of 10 page 36 of 285.
[42] Docket 13-07005 Volume 2 SPPC IRP Application page 16, lines 17-20. "Second, the Western Electric Coordinating Council reports, there is more than adequate capacity in 2014. Accordingly, there is little reliability risk associated with leaving the 2014 position open as long as Sierra continues to monitor markets."

5. Replace lost sales compensation with a more reasonable cost recovery method during the 2015 legislative session

The current lost sales compensation system is overly complex and acts as a disincentive to customer conservation efforts, e.g. customers pay the base rate for each kWh that may have been conserved. Lost sales compensation associated with energy efficiency programs has been very controversial. Commissioners have expressed dissatisfaction with the lost sales compensation system during several public agenda meetings. Ratepayers are frustrated at having to pay for sales that were not made. While NV Energy management is aware of these problems related to lost sales compensation, new ownership has not experienced these problems. In order to implement a more reasonable cost recovery arrangement at the next legislative session, the Commission should adopt a condition requiring the Company to meet with Staff and BCP to develop an alternative solution that is acceptable to these parties. The condition would also require the Company to make a good faith attempt to modify applicable statutes during the 2015 legislative session.

It is worth noting that the Nevada Office of Energy provided a grant to UNR[43] to lead an effort on Alignment of Nevada Economic Development Policy and Energy Policy. After extensive study, they recommended that lost sales compensation be modified at the next legislative session. They see lost sales compensation as an obstacle that makes energy efficiency efforts less cost effective.

6. Affiliate transaction rules should be strengthened.

BCP witness Jim Dittmer provides recommendations regarding the need for strong affiliate transaction requirements.

7. Stronger Ring Fencing

BCP witness Dan Lawton provides recommendations regarding the need for verification of the ring fence protections.

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[43] Dick Bartholet, UNR, Facilitator

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8. Service Quality Metrics, Hedging, Selling for Resale, Kern River Pricing Protections

BCP witness David Chairez provides recommendations on safeguards and standards that should be adopted regarding service quality, natural gas hedges with affiliates, efforts to sell for resale, and advocacy regarding Kern River fuel purchase prices.

9. The smart meter opt-out service should be made permanent.

Many customers who have taken advantage of the trial smart meter opt-out service have expressed concern that new owners may attempt to eliminate this option or modify the pricing. These customers have deep concerns about the health and security issues associated with smart meters. In order to address these concerns, the trial offering should be made permanent and the prices should not be modified for six years.

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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Exhibit DJ-1

Professional and Educational Background for Dan Jacobsen

Education

1979	Bachelor of Arts Degree San Jose State University
1982	Masters of Business Administration Golden Gate University

Employment

1980 – 1986	Pacific Telephone / Pacific Bell -- Service Costs -- Engineer
1986 – 1987	Pacific Bell – Cost Allocation Manual -- Director
1988 – 1990	Pacific Bell – New Product Financial Analysis – Director
1990 – 1996	Pacific Bell – State Regulatory – Director
1996 – 1998	Pacific Bell Communications – Exec. Director
1998 – 2000	Pacific Bell – State Regulatory – Exec. Director
2000 – 2007	Nevada Bell -- Regulatory -- Exec. Director
2007 – 2010	AT&T Kansas - President
2010 – Present	BCP -- Technical Staff Manager

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Exhibit DJ-2

There Have Been Some Pretty Harsh Changes At Heinz Since Warren Buffett Bought The Company

It's not all Dilly bars and Cherry Cokes when Warren Buffett takes over your company, Bloomberg reports. When the Oracle of Omaha decides you're ready for Berkshire — at least in Heinz's case — it's time for some serious changes.

Earlier this year Buffett teamed up with Brazil's richest man, Jorge Paulo Lemann, and his private equity firm 3G, to buy Heinz in a $23 billion deal.

Now it's time to make the company really sing (and pay down the $12.6 billion of debt that had be taken on to do the deal). That means cutting costs. All kinds of costs — like 11 senior executives.

From Bloomberg:

An August memo obtained by Bloomberg News outlines new rules. They limit printing to 200 pages a month per employee and restrict color pages to “customer-facing purposes.” Employees can spend no more than $15 a month on office supplies and are expected to reuse items such as box files. To save on electricity, mini-refrigerators “are not permitted moving forward” and staff should rely on appliances in common areas.

Employee spending on business trips was limited to $45 per day for food and incidentals, two of the people said. The aviation department, which included two leased aircraft and a company-owned Gulfstream IV, was shut, according to one.

Not the G-IV, anything but the G-IV.

There are also the 600 job cuts that are expected in the U.S. and Canada, and 250 jobs in peril in the U.K. It looks like, on the east side of the Atlantic, lawyers are particularly concerned (from thelawyer.com):

In a statement Heinz said: “After a comprehensive evaluation process, the company has developed a proposed new streamlined structure for Heinz UK & Ireland.

“Unfortunately, the proposals may result in a number of difficult organizational changes, including the elimination of 248 office positions across the UK and Ireland. We regret the impact this may have on Heinz employees and their families.

“The proposal is subject to a consultation process with employees and their representatives, and Heinz is committed to ensuring all employees are treated with the utmost respect and compassion.

Still sounds rough.

Read more: http://www.businessinsider.com/since-buffett-penny-pinching-at-heinz-2013-9#ixzz2g7g5P9HF

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CERTIFICATE OF SERVICE

Docket No. 13-07021

I certify that I am an employee of the Attorney General's Bureau of Consumer Protection and that on this day I have served the foregoing document upon all parties of record in this proceeding by emailing or mailing a true copy thereof, properly addressed with postage prepaid or forwarded as indicated below to:

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